

PERAC AUDIT REPORT



Dedham Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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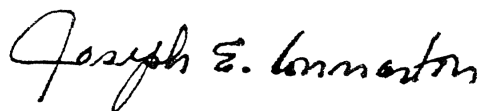
December 13, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Dedham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Amy Chow, Kevin McCarthy, George Nsia, and Michael Pasternak who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash/Bank Reconciliation

At the time of the audit, the Town Treasurer's office had not been providing the Dedham Retirement System with consistent monthly bank reconciliations since May 2014. The Administrator would prepare her own reconciliation to confirm outstanding checks, deposits and disbursements, and to identify any discrepancies with respect to general ledger balances. However, because Board staff handles deposits and disbursements, there is a lack of separation of duties. Sound internal controls would dictate that all bank accounts are reconciled by someone other than the employee who receives and disburses funds.

Recommendation:

The Town Treasurer shall be the custodian of the retirement system's funds pursuant to G.L. c. 32 § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform monthly reconciliation of all retirement system cash accounts. This process must be completed in a timely manner. A complete list of unpaid checks and similar reconciling items should be compiled and included with the monthly bank reconciliation. Any discrepancies with general ledger balances must be promptly identified and resolved. The Board should be reviewing these bank reconciliations at their monthly meetings.

Board Response:

At the time of the audit, the auditors were notified that the Dedham Town Treasurer had changed our bank to Rockland Trust as of January 1, 2016, we began using the accounts exclusively. These accounts will and are being balanced by Rockland Trust, reviewed by the Treasurer and forwarded to our office. Just prior to the completed audit, the Treasurer's Office forwarded completed bank reconciliations back to May 2014.

2. Membership Contributions

A review of Housing Authority payroll revealed the following errors:

- A member of the housing authority has been contributing to retirement at an incorrect rate since some point in 2015. The member's contribution rate was calculated at approximately 7.6% when he should be contributing at a rate of 8%. The Administrator is currently researching further to determine exactly how long the error has been occurring and how much was under-contributed by the member.
- A member of the housing authority receives a beeper stipend for on-call services during off-duty hours. The 8% base rate is not being withheld from this pay, but the additional 2% is withheld. Prompted by discussions during the audit, the Administrator has identified additional items that require follow-up with the Housing Authority. The Administrator audits the Town's payroll on a quarterly basis; however, she does not review the Housing Authority's payroll on a regular basis.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation:

The Board Administrator must work with the payroll officer of the Housing Authority to resolve these issues. Moving forward, Board staff should periodically review complete payroll registers in order to ensure that contribution rates (both base and the additional 2%) are being calculated correctly.

Board Response:

All corrections have been made to employee accounts and we are reviewing the year to date figures on a quarterly basis.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	\$94,193	\$5,706	\$90,534
PRIT Cash Fund	70,055	308,054	75,072
PRIT Core Fund	110,559,010	105,057,671	93,404,026
Accounts Receivable	79	6,010	5,820
Accounts Payable	(1,714)	0	0
Total	<u>\$110,721,622</u>	<u>\$105,377,440</u>	<u>\$93,575,452</u>
Fund Balances:			
Annuity Savings Fund	\$21,303,814	\$21,187,137	\$20,025,018
Annuity Reserve Fund	7,430,608	6,925,675	7,092,325
Pension Fund	392,170	430,193	2,940,942
Military Service Fund	9,882	9,872	9,746
Expense Fund	0	0	0
Pension Reserve Fund	81,585,148	76,824,564	63,507,420
Total	<u>\$110,721,622</u>	<u>\$105,377,440</u>	<u>\$93,575,452</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$19,937,057	\$6,319,639	\$5,611,203	\$7,996	\$0	\$52,721,928	\$84,597,823
Receipts	2,149,040	205,230	3,896,419	1,750	645,575	10,785,472	17,683,485
Interfund Transfers	(1,671,653)	1,671,633	0	0	0	21	0
Disbursements	(389,425)	(1,104,177)	(6,566,680)	0	(645,575)	0	(8,705,857)
Ending Balance (2012)	20,025,018	7,092,325	2,940,942	9,746	0	63,507,420	93,575,452
Receipts	2,130,763	206,456	4,406,559	126	730,352	13,315,078	20,789,334
Interfund Transfers	(810,650)	808,585	0	0	0	2,066	0
Disbursements	(157,995)	(1,181,691)	(6,917,308)	0	(730,352)	0	(8,987,345)
Ending Balance (2013)	21,187,137	6,925,675	430,193	9,872	0	76,824,564	105,377,440
Receipts	2,218,852	211,861	4,563,050	10	791,592	7,461,956	15,247,321
Interfund Transfers	(1,563,333)	1,563,326	2,701,379	0	0	(2,701,372)	0
Disbursements	(538,842)	(1,270,253)	(7,302,452)	0	(791,592)	0	(9,903,139)
Ending Balance (2014)	21,303,814	7,430,608	392,170	9,882	0	81,585,148	110,721,622

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	\$2,076,314	\$1,947,185	\$1,944,026
Transfers from Other Systems	81,419	135,021	67,056
Member Make Up Payments and Re-deposits	25,669	26,705	111,520
Investment Income Credited to Member Accounts	35,450	21,852	26,437
Sub Total	<u>2,218,852</u>	<u>2,130,763</u>	<u>2,149,040</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>211,861</u>	<u>206,456</u>	<u>205,230</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	137,518	130,109	126,499
Pension Fund Appropriation	138,830	142,050	151,520
Settlement of Workers' Compensation Claims	4,277,701	4,118,400	3,618,401
	9,000	16,000	0
Sub Total	<u>4,563,050</u>	<u>4,406,559</u>	<u>3,896,419</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	116	1,742
Investment Income Credited to the Military Service Fund	<u>10</u>	<u>10</u>	<u>8</u>
Sub Total	<u>10</u>	<u>126</u>	<u>1,750</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>791,592</u>	<u>730,352</u>	<u>645,575</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	3,720	3,592	3,482
Interest Not Refunded	4,684	171	5,697
Miscellaneous Income	3,627	0	0
Excess Investment Income	<u>7,449,925</u>	<u>13,311,316</u>	<u>10,776,292</u>
Sub Total	<u>7,461,956</u>	<u>13,315,078</u>	<u>10,785,472</u>
Total Receipts, Net	<u>\$15,247,321</u>	<u>\$20,789,334</u>	<u>\$17,683,485</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	\$183,102	\$104,453	\$75,717
Transfers to Other Systems	<u>355,741</u>	<u>53,541</u>	<u>313,708</u>
Sub Total	<u>538,842</u>	<u>157,995</u>	<u>389,425</u>
Annuity Reserve Fund:			
Annuities Paid	<u>1,270,253</u>	<u>1,181,691</u>	<u>1,104,177</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,601,326	4,430,851	4,251,325
Survivorship Payments	531,679	502,115	467,472
Ordinary Disability Payments	225,139	223,513	230,131
Accidental Disability Payments	1,441,229	1,301,592	1,182,409
Accidental Death Payments	260,301	224,722	215,392
Section 101 Benefits	48,720	43,685	37,227
3 (8) (c) Reimbursements to Other Systems	<u>194,057</u>	<u>190,830</u>	<u>182,725</u>
Sub Total	<u>7,302,452</u>	<u>6,917,308</u>	<u>6,566,680</u>
Expense Fund:			
Board Member Stipend	1,125	1,125	1,500
Salaries	115,154	98,296	90,933
Legal Expenses	22,045	20,683	21,306
Travel Expenses	1,302	1,138	737
Administrative Expenses	11,476	8,884	9,209
Professional Services	18,506	0	0
Actuarial Services	11,786	0	0
Education and Training	4,458	3,843	4,102
Furniture and Equipment	2,103	0	2,838
Management Fees	578,033	553,706	473,058
Rent Expenses	17,940	17,940	17,990
Service Contracts	2,356	19,681	18,854
Fiduciary Insurance	<u>5,308</u>	<u>5,057</u>	<u>5,049</u>
Sub Total	<u>791,592</u>	<u>730,352</u>	<u>645,575</u>
Total Disbursements	<u>\$9,903,139</u>	<u>\$8,987,345</u>	<u>\$8,705,857</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Investment Income Received From:			
Cash	\$0	\$0	\$7
Pooled or Mutual Funds	3,087,296	2,892,643	2,823,674
Total Investment Income	<u>3,087,296</u>	<u>2,892,643</u>	<u>2,823,681</u>
Plus:			
Realized Gains	4,894,242	4,644,593	2,289,174
Unrealized Gains	7,048,365	12,057,349	11,957,590
Sub Total	<u>11,942,607</u>	<u>16,701,942</u>	<u>14,246,764</u>
Less:			
Unrealized Loss	(6,541,066)	(5,324,600)	(5,416,903)
Net Investment Income	<u>8,488,837</u>	<u>14,269,985</u>	<u>11,653,542</u>
Income Required:			
Annuity Savings Fund	35,450	21,852	26,437
Annuity Reserve Fund	211,861	206,456	205,230
Military Service Fund	10	10	8
Expense Fund	791,592	730,352	645,575
Total Income Required	<u>1,038,912</u>	<u>958,670</u>	<u>877,250</u>
Net Investment Income	8,488,837	14,269,985	11,653,542
Less: Total Income Required	<u>1,038,912</u>	<u>958,670</u>	<u>877,250</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$7,449,925</u>	<u>\$13,311,316</u>	<u>\$10,776,292</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$94,193	0.1%
PRIT Cash Fund	70,055	0.1%
PRIT Core Fund	<u>110,559,010</u>	<u>99.9%</u>
Grand Total	<u>\$110,723,257</u>	<u>100.0%</u>

For the year ending December 31, 2014, the rate of return for the investments of the Dedham Retirement System was 8.24%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Dedham Retirement System averaged 10.17%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Dedham Retirement System was 9.76%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Dedham Retirement System has no supplemental investment regulations on file with PERAC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Dedham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Dedham Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Creditable Service:

January 5, 2001

Employees in permanent positions who work the maximum number of hours established for the position as certified by the Treasurer, Department Head or Board of Selectmen which is equal to or exceeds 20 hours per week or a minimum of 800 hours in a calendar year for at least one (1) calendar year and have met all applicable requirements for membership in the system shall receive full-time credit for that employment as long as the member remains in that position. If the employee changes positions within the town or accepts a position with a public employer which would make the employee eligible for membership in a G.L. c. 32 retirement system, the creditable service earned in the prior position will be calculated on a prorated basis using an equation established by comparing the number of actual hours worked into the 37 1/2 hours per week rationale for the rule.

Travel Regulations:

The Dedham Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Dedham>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: vacant

Appointed Member: John Fontaine, Jr. Term Expires: Indefinite

Elected Member: John Maloney Term Expires: 12/18/17

Elected Member: Stephen MacDougall Term Expires: 12/18/16

Appointed Member: Thomas Rorrie, Chairman Term Expires: 1/1/18

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Sherman Actuarial Services as of January 1, 2014.

The actuarial liability for active members was	\$54,139,579
The actuarial liability for retirees, beneficiaries, disabilities and inactives members was	<u>70,792,161</u>
The total actuarial liability was	\$124,931,740
System assets as of that date were	<u>100,195,465</u>
The unfunded actuarial liability was	<u>\$24,736,275</u>
 The ratio of system's assets to total actuarial liability was	 80.2%
As of that date the total covered employee payroll was	\$20,523,383

The normal cost for employees on that date was 8.6% of payroll

The normal cost for the employer was 6.2% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 4.00% per annum

Schedule of Funding Progress as of January 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$100,195,465	\$124,931,740	\$24,736,275	80.2%	\$20,523,383	120.5%
1/1/2012	\$86,438,199	\$120,226,039	\$33,787,840	71.9%	\$20,742,966	162.9%
1/1/2010	\$85,456,310	\$107,609,083	\$22,152,773	79.4%	\$19,109,370	115.9%
1/1/2008	\$90,708,716	\$98,591,648	\$7,882,932	92.0%	\$18,680,825	42.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	8	7	4	8	10	8	7	15	11	11
Ordinary Disability	0	0	0	0	1	1	0	0	1	0
Accidental Disability	1	2	0	0	2	2	1	2	2	3
Total Retirements	9	9	4	8	13	11	8	17	14	14
Total Retirees, Beneficiaries and Survivors	305	308	291	293	299	308	292	309	318	325
Total Active Members	422	434	458	459	454	450	450	440	439	428
Pension Payments										
Superannuation	\$2,881,417	\$3,091,883	\$3,150,481	\$3,219,060	\$3,354,728	\$3,654,378	\$3,890,704	\$4,251,325	\$4,430,851	\$4,601,326
Survivor/Beneficiary Payments	276,491	329,317	341,060	412,521	431,239	416,770	455,813	467,472	502,115	531,679
Ordinary Disability	212,452	208,966	204,571	202,571	224,370	237,134	238,824	230,131	223,513	225,139
Accidental Disability	902,364	1,080,127	983,655	976,309	967,669	1,068,860	1,158,330	1,182,409	1,301,592	1,441,229
Other	417,424	421,325	443,660	441,659	415,820	367,311	456,865	252,619	268,407	309,021
Total Payments for Year	\$4,690,148	\$5,131,618	\$5,123,427	\$5,252,120	\$5,393,826	\$5,744,453	\$6,200,536	\$6,383,955	\$6,726,478	\$7,108,395

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Dedham Retirement Board leases space for its offices located at 202 Bussey Street, Suite 101, Dedham, MA. They signed an initial 5-year lease term which expired December 1, 2011. They renewed the lease @ \$1,495 per month which will expire January 31, 2017. The landlord is Gillard Associates.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2014:

For the Year Ending:	Annual Rent
2015	\$17,940
2016	17,940
2017 (after \$1,200 deposit)	<u>295</u>
Total future minimum lease payments required	<u>\$36,175</u>

Note: Last Month's Rent: a deposit of \$1,200 for the month of January, 2017, was paid in advance in November, 2006.

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